

Docket: : A.06-08-026  
Exhibit Number : \_\_\_\_\_  
Commissioner : Michael Peevey  
Admin. Law Judge : Thomas R. Pulsifer  
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**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Rebuttal Testimony of DRA  
on the Application of  
Southern California Gas Company  
San Diego Gas and Electric Company  
and  
Southern California Edison Company  
For Approval of Changes to Natural  
Gas Operations and Service Offerings  
in A. 06-08-026**

San Francisco, California  
April 17, 2007

## SUMMARY OF DRA'S REBUTTAL TESTIMONY

The Division of Ratepayer Advocates' (DRA) Rebuttal Testimony addresses only specific issues raised in the direct testimonies of Southern California Generation Coalition (SCGC), Coral Energy Resources L.P. (Coral), and the City of Long Beach Gas and Oil Department (Long Beach), all dated March 22, 2007. These testimonies were filed in response to the request of Southern California Gas Company (SoCalGas), San Diego Gas & Electric Company (SDG&E), and the Southern California Edison Company (SCE) (the "Applicants") for approval of changes to natural gas operations and service offerings in Application (A.) 06-08-026. SCGC and Coral both argue against the consolidation of the core procurement functions of SDG&E and SoCalGas and voice concerns of the potential abuse of exercise of market power.<sup>1</sup> Obviously, SCGC's and Coral's concerns are predicated on the assumption that SoCalGas and SDG&E would have market power in the first place. For reasons explained in this rebuttal testimony, DRA opposes SCGC's call for the rejection of Applicants' core consolidation proposal. DRA also opposes Coral's proposal to mitigate the presumed advent (and subsequent potential abuse) of market power through a self-serving "Core Procurement Diversity Program."

Also in this proceeding, Long Beach argues in favor of core parity of service for its core customers.<sup>2</sup> DRA does not necessarily object to Long Beach's core parity of service issues, but recommends that these customer-specific issues be addressed in the upcoming BCAP scheduled to be filed in December 2007, which is a more appropriate forum for such matters.

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<sup>1</sup> Direct Testimony of Catherin E.Yap on Behalf of Southern California Generation Coalition dated March 22, 2007, p.27 and Prepared Testimony of Mr. Laird Dyer on Behalf of Coral Energy Resources, L.P. dated March 22, 2007, p.7.

<sup>2</sup> Prepared Direct Testimony of John Burkholder on Behalf of the City of Long Beach Gas and Oil Department dated March 22, 2007, p.5.

## SCGC’S CONCERNS ARE UNFOUNDED

SCGC urges the rejection of SoCalGas’ and SDG&E’s core portfolio consolidation proposal, and cites the concerns raised by the Commission in D.02-08-065 as the reason for its recommendation. SCGC also takes issue with the absence of any discussion by the Applicants as to how the core portfolio consolidation might affect SoCalGas’ exercise of market power. They point out that the Commission previously rejected a similar consolidation proposal in D.02-08-065. SCGC concludes that the proposed consolidation should be rejected since the Applicants have not addressed the concerns set forth by the Commission in that Decision. DRA points out that the Commission, in Ordering Paragraph #1 in D.02-08-065, “deferred” the consolidation request pending the outcome of the California border price spikes investigations. Both investigations, I.02-11-040 and I.03-02-033, are now closed and were dismissed with prejudice. If the concern of market power had merit, then the Commission surely would not have dispensed with both investigations by dismissing them “with” prejudice.<sup>3</sup>

The concerns raised in D.02-08-065 cited by SCGC have been behind us for quite some time now. In D.05-11-004, the Commission modified D.02-08-065 to allow SoCalGas and SDG&E to jointly file an application for core gas supply portfolio consolidation.<sup>4</sup> In D.05-11-004, the Commission found that “Current conditions in the gas industry could be favorably affected by core gas supply portfolio consolidation as proposed by Petitioners.”<sup>5</sup>

In I.02-11-040 and I.03-02-033 the Commission sought to examine SoCalGas’ and SDG&E’s conduct and activities relating to the natural gas spikes during California energy crisis of 2000-2001. Southern California Edison Company, which aggressively pursued the allegation that SoCalGas had market power, is now one of the Applicant’s supporting the consolidation of the gas procurement portfolios of SoCalGas and SDG&E.

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<sup>3</sup> Ordering Paragraphs #1 & 2, D.06-12-034.

<sup>4</sup> Ordering Paragraph #2, D.05-11-004.

<sup>5</sup> Finding of Fact #2, D.05-11-004.

DRA's position on this matter is that whatever concerns that might have prevailed at one time in this context either did not exist then or, if they existed, they have now evaporated. As set forth in its testimony, DRA supports the proposed portfolio consolidation pursuant to the conditions set forth that testimony.

**IS CORAL WILLING TO SET UP “UTILITY” OPERATIONS THAT COMPETE WITH SOCALGAS, AND OPEN IT’S BOOKS FOR COMMISSION AUDIT?**

In its Prepared Testimony, Coral states that (the consolidation), if adopted, would increase the Sempra utilities' market power as well as the potential for the exercise of that power in the southern California gas market. However, Coral offers no evidence to substantiate its claim. To DRA's knowledge, Coral has filed no such complaint either with this Commission or at the Federal level. They offer no evidence or analysis to support the allegation that the approximate 15% increase (to the existing SoCalGas portfolio) resulting from consolidation would provide the utility with market power. On p.12 and p.14 of its testimony, Coral makes it very clear that it has its eyes set on only the reward side of SoCalGas' GCIM and SDG&E's PBR compacts, and would like to be held harmless for fixed priced purchases that exceed the benchmark. DRA would like to point out that SoCalGas' GCIM and SDG&E's PBR compacts also go hand-in-hand with their obligation to serve and the fact that they are regulated by the Commission.

Coral's proposal would replace the consolidated core gas procurement functions of SoCalGas and SDG&E with five (5) wholesale core procurement agents. It is noteworthy that Coral then goes on to recommend the adoption of its panacea even if the consolidation sought by the Applicants is rejected by the Commission.<sup>6</sup> This clearly suggests that regardless of whether or not the consolidation goes forward, and regardless of whether or not there is any merit to Coral's allegation of market power, and regardless of whether or not a problem has been identified by the Commission, Coral has a solution.

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<sup>6</sup> Mr. Dyer's Testimony, p.5.

It is appropriate to point out that Coral is already free to set up operations as a core aggregator and take on the associated risks and responsibilities. The Commission has already established a process for unregulated gas marketers to serve core customers via the core aggregation program. This program is set forth in Rule No. 32 of SoCalGas' tariffs. If Coral or other marketers can offer better price or service for gas supply to core customers then they need only market their supply through this program. The Commission should reject Coral's proposal in this proceeding and should direct them to the existing core aggregation program.

Coral's self-serving proposal, which would increase costs for core customers by adding another layer of administrative costs and removing economies of scale and synergies that would otherwise exist, fails to mention of whether or not Coral is willing to be regulated, whether or not it is willing to open its books (and those of its affiliates and holding companies) for Commission audits, whether or not it is willing to take on an "obligation to serve" in this capacity, whether or not it has appropriate safeguards in place to protect against any conflicts of interest, and how any transactions with Coral's affiliates will play out. If that's not enough, should we have Coral conduct hedging transactions on behalf of the core with no regulatory oversight also? Should we have SoCalGas and SDG&E also assign their upstream capacity holdings on interstate pipelines to ensure the compatibility of gas procurement with gas pipeline capacity? Should we also have Coral acquire Firm Access Rights for the core? The list goes on and on. Where do we stop? Simply put, is Coral willing to set up "utility" operations that compete with SoCalGas and SDG&E, and be regulated? If not, then DRA argues that Coral's proposal should be put to rest firmly. If Coral (or any of the potential five wholesale procurement agents) is willing to be regulated, then DRA recommends that Coral make the appropriate filings before the Commission and also demonstrate how Coral – as a utility – can better SoCalGas' and SDG&E's performance in the areas of core gas procurement. Absent such a filing, SoCalGas, as a regulated entity under the California Public Utilities Commission jurisdiction, should continue to be responsible for procuring natural gas for its core customers.

**QUALIFICATIONS AND PREPARED TESTIMONY**  
**OF**  
**RAMESH RAMCHANDANI**

Q1. Please state your name and address.

A1. My name is Ramesh Ramchandani. My business address is 505 Van Ness Avenue, San Francisco, CA 94102.

Q2. By whom are you employed and in what capacity?

A2. I am employed by the State of California at the California Public Utilities Commission as a Program and Project Supervisor.

Q3. Please describe your educational background and experience.

A3. I have Bachelor of Science Degree in Mechanical Engineering from Banares Hindu University in India, a Master of Science Degree in Mechanical Engineering from Ohio State University, and an M.B.A from the University of Santa Clara. I also hold a Registered Professional Engineer's License in the State of California.

I have been employed by the California Public Utilities Commission for slightly more than 25 years. For the first 5 years, I worked as a ratemaking analyst in the Commission's Telecommunications and Water Divisions. For the next 5 years, I assisted and advised Commissioners and Administrative Law Judges on ratemaking and policy issues pertaining to energy utilities. For the past 15 years, I have been employed as a Section Supervisor in the Division of Ratepayer Advocates, first as a Supervisor of the Marginal Cost Section, then as a Supervisor in the Utility Performance and Analysis Branch, and now, for the last 6 years, I have been the Supervisor of the Natural Gas Section.

Q4. What is your responsibility in this proceeding?

A4. I am sponsoring the Division of Ratepayer Advocates Rebuttal Testimony.

Q5. Does this complete your prepared testimony?

A5. Yes, it does.